

Toys R Us case study

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ABSTRACT

Toys R Us has long been one of the most popular toy retailers catering to children of all ages, including newborns. Parents would bring their children there on a regular basis to buy new toys. Toys R Us would make a fortune around the holidays because of the well known toys they would sell. It was a destination place where children and their parents just had to go. Now, Toys R Us just isn't what it used to be. Toys R Us faced many challenges that they could not get ahead of which resulted in their decline. They were at a disadvantage when they failed to change and adapt to what was a very progressive market condition. Other factors for its decline was that they were in a losing battle against their competitors such as Walmart, Target and Amazon and were also faced with an era of ecommerce and social media failing to embrace the culture. In addition to that they lacked intellectual insight for their business and cut expenses reflecting negatively on the stores' general customer service. Toys R Us biggest issue was their billion dollar debt. As a result of that debt, it halted the company from making the necessary investments in its stores which resulted in an unpleasant shopping experience that damaged the chain. When Toys R Us eventually launched an ecommerce platform, it was too late to make a difference and it was plagued with technological glitches. It was clear that consumers were shifting to more online spending and Toys R Us failed to convert fast enough. Examining the reason for the company's decline, we'll consider what Toys R Us may have done differently to be more successful. Each generation has its own set of communication methods that they like and prioritize so as to market to our intended audience of children and their parents, we are going to utilize personal selling and online marketing to increase sales and exposure. Consumers will have a richer experience with personal selling and internet marketing will improve brand awareness. Since Toys R Us

filed for chapter 11 bankruptcy, a customer centric approach is critical, as it would allow the company to market more effectively and improve sales.

History

Toys R Us was founded in 1948 by Charles Lazarus. Lazarus was motivated by the emerging postwar of 1945, “babyboom”, and found a way to profit from it(Biron & McDowell, 2021). Toys R Us was primarily known for its baby goods and furniture store. Lazarus started expanding into toys in the following years and the company was given the name ‘Toys R Us’ in 1957. Toys R Us was very profitable because after the war he knew soldiers were going home to settle down, have children and live the american dream. Through purchasing and selling so many toys, Lazarus was able to corner the market and negotiate better contracts than his rivals(Biron& McDowell,2021). Also, Toys R Us would bring in big names like NBA hall of famer Magic Johnson for press campaigns or philanthropic work(Biron&McDowell, 2021). The idea behind bringing in celebrities like Johnson, was to get kids and the parents into the store to meet the celebrities and do a little shopping while in the process.

Timeline

1948- First store: children's bargain town aka Toys R Us

1952- The first baby furniture and toy store open its door

1957- The name” Toys R Us” has been adopted

1966- Interstate Store Inc. bought the company

1974- interstate store inc goes bankrupt

1978- Toys R Us name is changed to Toys R Us Inc & Lazarus becomes CEO & President

1983- Toys R Us opened a clothing store called Kids R Us

1984- Toys R Us First international store in Canada and Singapore

1994- Lazarus leaves position of president and CEO, however, precedents continue to be followed

1996- Babies R Us is launched and Toys R Us first website is created

1997- Toys R Us signs a partnership deal with Amazon to manage online sales

2001- Toys R Us opens up in Times Square NYC and competition started to rise

2003- All Kids R Us locations closed

2005- 2016 As competition rose, the company started to see a decline in sales annually. Toys R Us became a private company.

2017- Toys R Us filed for Chapter 11 Bankruptcy protection.

(Business Insider)

Market Analysis

Segmentation of products

Aside from traditional toys, Toys R Us offers a diverse assortment of merchandise.

Baby- Targeting newborns to young kids. merchandise from baby gear, furniture and room decor

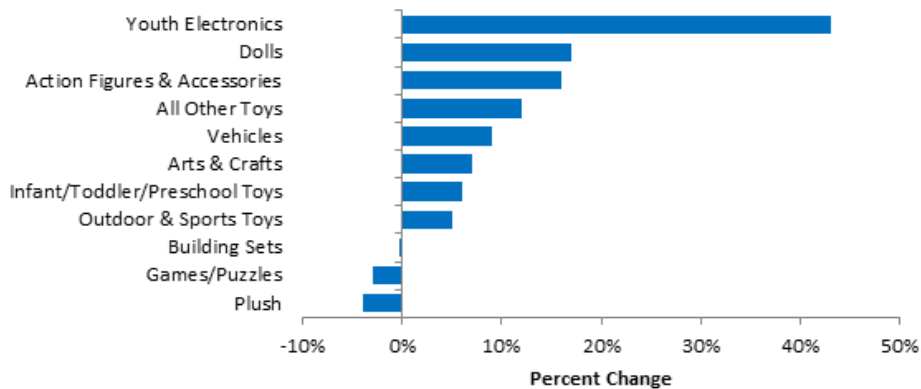
Toys- children toys including action figures, dolls, vehicles

Entertainment- software for video games, computer tablets

Learning- electronics for education and development

Seasonal- Toys and other items aimed for holiday and summer activities.

Supercategory Performance, January-June 2018 vs. 2017



Source: The NPD Group/ Retail Tracking Service, January-June 2018

Competitors



Toys R Us struggled to convert quickly enough as it became apparent that consumers were shifting to more online spending. According to Forbes contributor, Adam Hartung, for years Toys R us excelled at marketing items in just one category and expected to generate enough volume that general merchandise chains could not compete on inventory breadth or price(Hartung,2017). Until walmart initiated a full fledged price war to dominate holiday toys sales which was matched by target. “Toys R Us revenues had been declining annually for many years by 2005, and Walmart was selling more toys than Toys R Us”(Hartung, 2017).

SWOT Analysis

Strengths :

- Popularity of the business and its successful distribution network
- Owns unique baby brand
- Toys for children with special needs

Weaknesses

- A scarcity of differentiated or special products can be strengthened by investing in a variety of in demand products.
- Lack of social media presence can be be strengthen by merging with companies that incorporate various technological advances)
- Warehouse like retail locations can be strengthened by investing in its store
- Rude sales people can be strengthened by investing in training programs and clearly communicating what is expected or hire individuals with high performance skills.
- Complacent business infrastructure can be strengthened by always having a progressive business mindset)

Opportunities

- Joint ventures and strategic alliances
- Expansion
- Online presence

Threats

- Competition such as walmart, target and amazon etc.
- Online retailers

- Toy demand- children being more inclined to technological devices then traditional toys

Toys R Us has never been able to embrace the requisite improvements whereas businesses today, primarily businesses specializing in fashion and clothing trends are bound to progress strictly based on consumer demands. The toy business exposure has been dying and with no real active or creative impulsive improvements from Toys R Us as a franchise which led to its inevitable failure. Several ways the franchise, in present day, are addressing the issues that led to their inevitable downfall are joining forces with a company who seems to have a better grasp on what consumers are in demand called Tru Kids Brands, who then acquired the company in January. B8ta is another company who are attempting to add a sense of progressiveness to Toys R Us' failing attempts at technological advances. In addition to upping the ante on the general road to success of the business, they also decided to entrust the responsibility of revamping the company to the founders of B8ta, Barry and Phillip Raub.

In retrospect, for Toys R Us to increase market share, more innovative ideas from a more inventive team would have been beneficial. It is an excellent way to retain existing customers, draw in new customers and remain ahead of the competition. According to Dawn Iacobucci, new products are both beneficial and enjoyable, it improves a company's long term financial success and value(Iacobucci, 2018). In addition to creating more innovative ideas, Toys R Us should have focused on market penetration. Utilizing market penetration can put Toys R Us at an advantage as it would allow the business to evaluate the market and make adjustments of their products, having knowledge of its competitors products.



Furthermore, increased promotional activities would have been a major plus for the company's sales growth because it would have allowed for faster product diffusion and adoption of its products in the marketplace. The more a consumer saw Toys R Us products the more inclined they were to buy. Unquestionably to increase brand exposure, it would have been beneficial to use video marketing. Toys R Us could have created fun visuals with music to connect with consumers, because for a well known fact, content drives sales. Content marketing done right benefits include, building customer relationships, telling the brand story and exhibiting the company. Moreover, since Toys R Us struggled to stay ahead of its competitors, the company should have come up with an effective product pricing strategy. According to retail dive, Toys R Us was under performing against Walmart, Amazon and Target on popular toys because consumers were getting toys for lower prices. The business after a while started competing on price alone, hence was one of the reasons for their declines. Toys R Us could have set a high price that maximized profits by providing value and quality in its products and showcased its value in its content. Even though Toys R Us was known for having many toys, it should be about quality over quantity. Having great quality products can mean the difference of a consumer choosing Toys R Us products over its competitors. Furthermore, a pricing strategy that could have been utilized to increase market share in this situation is psychological pricing. Psychological pricing is a tactic used to manipulate a consumer perception of a price. Examples include ending a number with an odd number to give the impression that the consumer is paying much less. If walmart priced their product at eight dollars, Toys R Us could have priced that same product that walmart was selling for seven ninety nine. According to the law of demand, when the price rises, the amount of demand falls (but demand itself stays the same). If the price

falls, the amount of demand rises. If this strategy had been used, it could have helped increase the revenue of the business.

Marketing Plan

Toys R Us believed that because they were a billion dollar corporation, nothing can possibly go wrong, and they were very sluggish. Toys R Us had faced criticism for the conditions under which their stores were kept. It was known to appear old and dirty like a warehouse, as well as to have rude salespeople. No consumer wants to deal with someone from the business who is rude; this harmed the brand's reputation and drove customers away. Being behind on sales, resulted in debt. To get Toys R Us back on their game, the company needs to rebrand because they are seen negatively. In order to combat these issues, Firstly, Toys R Us should have a solid financial foundation to be on top of their profits and debts. Toys R Us should invest in its retail locations and ecommerce platforms so that customers have a positive experience and return. Also, hiring a team who values ethics and performs well is a way to create a positive experience. Furthermore, give back to the community by donating to charitable causes. Cause marketing has the potential to build loyalty for Toys R Us. This will make it easier for customers to shop with you in the future. They may also make long term recommendations for the brand. This dedication is priceless in the rapidly evolving online industry. “ In non crisis times, nearly seventy three percent of Americans say a company's charitable donation affects their buying decisions”(News, M 2018). Studies found that “emotional brand- related consumers have a living value of three hundred percent higher than non- emotional brand- related consumers, and they are twenty six percent more likely to tell others about the brand”(Mintel, 2018). This way Toys R Us will build emotional links with its target market. Overall, The company must be consistent and constantly grow if they are to stay ahead of their rivals. By delivering customer satisfaction,

the brand is able to increase credibility, customer loyalty and referral rates, and as a result, sales will flow.

Toys R Us should have moved to online shopping sooner, maybe they still would have been ahead of the game. Being that Toys R Us target market comprises not just children of all ages, but their parents, building a solid online presence on facebook and instagram would be advantageous. Toys R Us can create engaging ads and videos on facebook, instagram, snapchat and youtube. According to Forbes council member Rebecca Kowalewicz, word of mouth and online reviews have a large impact, especially when dealing with millennials. When individuals want to learn more about a product and make a buying decision they use their primary social media platforms, youtube, facebook and instagram(Kowalewicz, 2020).Nowadays social media presence is regarded as a sign of approval. Nowadays with the world being centered around technology there are many benefits to use social media marketing. Some of the benefits include, increased brand recognition, improved brand loyalty, improved customer insights and richer customer experience.

Personal selling would be more effective in marketing to children and their parents. Sales staff could dress up as popular movie or video game characters to provide an engaging experience. It would be advantageous to hire people who care for children and want to provide them with the best possible experience. Also, the sales personnel can demonstrate how the toys operate and set up play areas where kids can try out toys. Also, creating a strong online presence with fun and creative videos on platforms such as instagram, snapchat and youtube would be advantageous. Those are sites that resonate with kids and it allows them to be more aware and engaged. Furthermore, partnering with child influencers can be beneficial, according to Forbes member Danielle Wiley, influencers are now beginning to take advantage of some social

networks' new direct sales functionality. Posts include a link to buy and now instagram stories has a swipe up function that can guide a follower to a purchase page(Wiley, 2018). Seeing a kid influencer play with a toy can easily spark a young child's desire for the same exact product, causing them to demand their parents to purchase.

Financials

According to Forbes, Toys R Us had over 11 billion in revenue, but Babies R Us accounted for seventy five percent of its essentially non existent operating earnings, although accounting for only twenty four percent of stores which was not in favor of the trends. Toys R Us was purchased in 2005 by KKR And Bain capital for around six point six billion, plus the assumption of slightly under one billion dollar in debt, for a total valuation of seven point five billion. However, the private equity investors did not purchase the company with their own money. They only put in one point three billion and leveraged the companies assets to raise five point three in extra debt, totaling six point two billion. Total debt has now reached an astounding eighty two point seven of total capital. Interest rates on that debt were at seven point twenty five percent at the time of the deal, resulting in a cash outflow of four hundred fifty million each year solely to pay interest on the loans. Toys R Us was barely making a two percent profit at the time, therefore the debt quadrupled the company's net income(Adam Hartung, 2017). With four hundred million in debt coming, the company just did not have the cash flow or assets to repay those bond holders. Toys R Us inc filed for chapter 11 Bankruptcy protection on September 18,2017. “Chapter 11 bankruptcy is a plan of reorganization to keep the business alive and pay creditors over time”(uscourts.gov). By filing for chapter 11, Toys R Us had hopes to get a grasp on their financial situation. Since the filing of the bankruptcy, Toys R Us closed all of its stores in 2018 and Tru Kids Brands bought the rights to the company in 2019(business insider).

Conclusion

Toys R Us was once king of the Toy castle. As time changed it faced many adversities that it has been unable to overcome to keep their business running. Their decline in sales was a result of the company failing to keep up with technology and adapt to the changing preferences and buying habits of new generations. Their billion debt forced job cuts, reduced training and halted them from making the necessary investments in its stores which reflected negatively on the company. Toys R Us needed to adjust as the world changed, but they didn't, and had they done so, they could have kept that momentum going. It was evident that technology was emerging and consumers were shifting to more online spending. Toys R Us could have found ways to connect with consumers. With presenting fun and engaging content on platforms such as snapchat, instagram and youtube would have been advantageous. Those platforms have millions of active users and it would have been a great way to increase brand exposure by creating content to showcase the business and all the great things about it. Undeniably, content drives actions, so if done right it would have helped increase sales. Other factors that could have increased sales is getting ahead of that billion dollar debt to make the necessary investments the retail locations so desperately needed. Also, collaborating with influencers and donating to good causes to generate publicity and revenue. What businesses support is important to millennials.

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